**Industrial Fasteners Institute (IFI) Comments on Comprehensive Tax Reform**
**Submitted to both the**
**Manufacturing and Small Business/Pass-Through Tax Reform Working Groups**
**of the**
**House Ways and Means Committee**
**April 15, 2013**

The Industrial Fasteners Institute (IFI) is the trade association that represents 85% of the North American production capacity for mechanical fasteners – the nuts, bolts, screws, and rivets that hold together everything from aircraft to wind turbines. IFI is divided into Divisions representing the markets served.

- **DIVISION I: INDUSTRIAL PRODUCTS:** Division I members focus on Original Equipment Manufacturer (OEM) markets other than automotive and aerospace, and on sales through fastener distribution channels. Primary markets include electrical/electronics, appliance, furniture/office equipment, heavy truck/bus, construction and agricultural equipment, energy, structural buildings, and transportation infrastructure (i.e., bridges).
- **DIVISION II: AEROSPACE PRODUCTS:** Division II manufacturers supply specialized products to the aerospace industry and the Department of Defense. Their products are frequently made from the more exotic materials and often have complex geometry in their design. Because they supply to the government, they must comply with complex defense procurement agency constraints and export controls where appropriate. This Division has an Affiliate Member category which consists of key distributors to the major aerospace airframe, engine and flight component OEMs.
- **DIVISION III: AUTOMOTIVE PRODUCTS:** Division III is made up of manufacturers supplying product to the automotive OEMs and the Tiers that supply them.
- **ASSOCIATE SUPPLIERS DIVISION:** The Associate Division members are the key suppliers of the raw material, machinery, equipment and services used in the production of fasteners/formed parts.

For 2012, U.S fastener production was about $12 billion annually, with about $3.2 billion of that being exported. Total fastener consumption in the U.S. is about $14 billion annually, with about $4.8 billion being imported. The last year for which employment data is available was 2010 when the industry employed about 42,000 workers in about 850 fastener manufacturing entities, *the majority of which are small businesses.*

IFI applauds the U.S. House of Representatives Committee on Ways and Means for its efforts to develop comprehensive tax reform, and supports the basic goals set forth by Ways and Means Chairman Dave Camp (R-MI) of lowering the top rate for all taxpayers to no more than 25 percent while broadening the overall tax base to maintain current revenue levels, and moving to a territorial system of taxation for corporations with global operations. However, that support is based on the assumption that all manufacturers will be treated alike under the new system.

Because the majority of our members are small businesses, IFI has reviewed the discussion draft tax legislation on small businesses recently released by Chairman Camp, which is aimed at making the tax code fairer and simpler for small businesses. While many of the suggestions made by that draft legislation for improving the investment climate for small business may be of some limited benefit to certain small businesses, in IFI's view they do not represent a significant improvement over current law for small businesses in the manufacturing sector, with one exception: making permanent the expensing of investments in equipment and property up to $250,000 annually. IFI believes that change would allow many of its members to invest in new equipment sooner than would otherwise be the case.

Modern fastener manufacturing is capital-intensive, yet many U.S. fastener companies are small or medium sized enterprises, often family-owned or closely held. As such, many fastener manufacturers and other metalworking companies and their suppliers are organized as Subchapter S Corporations, Limited Liability Companies (LLCs), Partnerships or other pass-through entities, so taxes are paid by their owners at individual rates.

Today's U.S. tax code has grown incredibly complex, filled with innumerable tax incentives and tax credits, many of which benefit only one industry or one type of business enterprise, or which may be utilized by some companies but not others due to structure or simply a lack of sophistication in tax preparation. Regardless of their merit, selective application of these incentives and credits can lead to vastly different tax bills for companies of similar size, even within the same industry. In addition, U.S. taxes on business in general are higher than many of our global competitors, making the U.S. less attractive for investment.

According to a 2012 survey of IFI members:

- 50% are Pass-Through Entities (S-Corp, LLC, LLP)
- 50% are Corporations
- 67% use R&D credit
- 89% use Section 199 Domestic Production Activities Deduction
- 83% use Section 179 Expensing for Equipment
- 94% use Bonus (Accelerated) Depreciation

These statistics demonstrate the significance of equal treatment for all manufacturers under any tax reform proposal. For example, if tax reform were applied only to the "corporate" structure, half of IFI's members would receive no benefit from lower tax rates, and if those lower rates were "financed" by the elimination or reduction of current deductions and credits that they utilize heavily, they would likely see their total taxes rise substantially.

Therefore, IFI believes it is critically important that any comprehensive tax reform legislation be truly comprehensive in nature (i.e., corporate and individual) and crafted to ensure that all manufacturers are treated alike, regardless of structure. IFI recognizes the challenges that must be overcome to accomplish this goal, and we look forward to working with the Committee to help ensure that tax reform results in increased global competitiveness for all U.S. manufacturers.

IFI also recommends that Congress consider two other tax matters as part of this discussion: permanent repeal of the estate tax, and repeal of the tax-related provisions of the Affordable Care Act.

As previously stated, many fastener manufacturers are family-owned or closely held businesses. As such, in addition to all the challenges they face to become and remain globally competitive, they must also deal with the additional challenge of the estate tax when a family member dies.

Recent legislation to permanently raise the estate tax exemption will be of some benefit to families and certain small businesses, but most manufacturing companies will still be subject to the tax. The result is that money will be removed from the business (to pay the tax), leaving less for investment in new equipment or employees, at the worst possible time. In addition, the President's FY 2014 Budget proposes that the estate tax revert to its 2009 levels in 5 years. IFI recommends repeal of this punishing tax on family-owned businesses.

Similarly, the Affordable Care Act contains many tax increases on businesses that are counterproductive and reduce the availability of capital for expansion or wage increases. And since the Supreme Court has declared the Act constitutional by virtue of the fact that it is a tax, comprehensive tax reform legislation seems to offer an opportunity to repeal those provisions.

**Repeal of Last In-First Out (LIFO) Accounting Method Is Not Part of Tax Reform**

Finally, IFI believes that Congress must resist the temptation to include unrelated items in any comprehensive tax reform legislation, such as repeal of the Last In-First Out Accounting Method (LIFO).

For the past several years, the President has proposed retroactive repeal of LIFO as part of his budget. Congress must recognize that repeal of the LIFO accounting method is NOT part of tax reform. Many manufacturers, including approximately 39% of surveyed fastener manufacturers, utilize this method, which has been part of the U.S. tax code since 1939, because it is the most accurate method of accounting for businesses that maintain large inventories of raw materials and work-in-progress. Repeal of LIFO and a requirement that LIFO reserves be repaid could bankrupt some small companies that have been using LIFO for years, and would do nothing to reform the tax system. We urge Congress to reject this approach in considering comprehensive tax reform.

Conclusion

IFI sincerely appreciates the opportunity to provide input into this very important legislative process. We know that our comments will be echoed by other metalworking associations as well as our members face similar challenges in the tax arena. We would be happy to provide additional information at any time. Please feel to contact Laurin Baker at The Laurin Baker Group, LLC, 202-393-8525, lbaker@thelaurinbakergroup.com, if we can be of any further assistance.

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